

Annual Audit and Inspection Letter

January 2006



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**Milton Keynes Council**

**Audit 2004-2005**

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## Key messages

### Council performance

- 1 Under the new CPA framework the Council is improving adequately and its overall CPA category is two stars. Residents' satisfaction with the Council's services has improved, but its achievements compared with other councils have been mixed. The Council recognises this and is making changes, with some marked service improvement starting to be reported in the latter stages of 2005. This reflects its strong commitment to both improve services and develop its own ability to deliver the changes needed, given the predicted substantial local population growth. Some key decisions focused on continued longer-term success, higher quality and improved value for money have been taken.
- 2 The Council has responded positively to inspections of its services during the year. Our inspection of the Council's environment service concluded that it provided a good service with promising prospects for improvement. An inspection of the Council's landlord services published early in the year concluded that it provided a fair service with uncertain prospects for improvement. Subsequently, the Council has been active in working to secure continued service improvement.
- 3 Good progress has been made in implementing the HR strategy, and mechanisms are in place to secure further improvement across the organisation. At the time of our review in February 2005 further work was needed to ensure that the policies and procedures were all implemented, monitored and reviewed supported by training. We understand this has now been achieved.
- 4 The Council is strengthening its approach to contract monitoring. However, it is not yet in a position to exploit improved intelligence about contracts to achieve systematic service improvements and efficiencies. The Council needs to identify a clear, long-term vision for the way in which procurement will shape service delivery and performance.

### The accounts

- 5 We issued an unqualified audit opinion on your accounts on 15 December 2005. However, we are not able to conclude the 2004/05 audit until matters raised by local government electors have been addressed.
- 6 Our work on the draft financial statements highlighted a number of amendments and matters for further attention which were reported to the Performance Review and Audit Committee on 7 December 2005.

## Financial position

- 7 The Council's financial position at 31 March 2005 was healthier than it has been for a number of years. General fund balances are close to the Council's medium-term target, and the Housing Revenue Account has a significant positive balance.

## Other governance issues

- 8 The Council is working hard with HBS to address performance issues it has identified in respect of the aspects of the finance part its agreement. The short-term essential criteria have been met, following significant efforts by HBS and the Council's strategic finance team. However, further significant improvements are needed by HBS to deliver the key finance elements of the PPP to the standard required.
- 9 We have also identified opportunities to improve the governance arrangements for partnerships, overview and scrutiny arrangements, and supporting people arrangements.

## Action needed by the Council

- 10 Much of the content of our letter has been reported separately in individual reports, where we have agreed an action plan with officers for the coming year.
- 11 There are two very important areas for further action by the Council, which it already has in hand with positive signs of improvement, and which we intend to keep under close review during the coming months. These are addressing:
  - continued service improvement across all services, particularly in some of its poorer performing priority areas; and
  - performance issues the Council has identified in respect of aspects of the finance part of its PPP agreement with HBS.
- 12 There is one other specific area where we consider further action is needed by the Council arising from our work. This relates to procurement, where there is a need to strengthen corporate functions, senior management support and capacity.

## Performance

### CPA scorecard

- 13 The CPA judgements this year have been made using the revised methodology: CPA - the harder test. As the title implies CPA is now a more stringent test with more emphasis on outcomes for local people and value for money. We have also added a new dimension, a Direction of Travel judgement, which measures how well the Council is improving.

**Table 1 CPA scorecard**

Element	Assessment
Direction of Travel judgement	Improving adequately
Overall	2 stars
<b>Current performance</b>	Out of 4
Children and young people	2
Social care (adults)	3
Use of resources	2
Housing	3
Environment	3
Culture	3
Benefits	3
<b>Corporate assessment/capacity to improve (not reassessed in 2005)</b>	2 out of 4

*(Note: 1=lowest, 4=highest)*

### Direction of Travel

- 14 The Council has seen some service improvement over the year, but its overall improvement, compared with other councils, has been mixed. However, it has sharpened its focus on weaker and priority service areas and has taken steps towards longer-term change. Looking to the future, it is also actively reviewing its corporate priorities, with a focus on sustainable community leadership and better services - including in partnership with others.

- 15 Resident satisfaction has improved overall since 2003. For a number of services this has been a significant rise, including in environmental services, education, personal social services, culture and recreation, planning and housing. This customer focus is also reflected in the commentary of some partner agencies, in schools' satisfaction, and in the Council's achievements in opening a new customer contact centre - Access MK - in 2005.
- 16 Comparisons with other councils remain more mixed, however. Overall, the Council is below average in 55 per cent of its 2004/05 performance indicators. The Council's value for money is fair, with scope for further improvement when compared with others. Costs and performance tend to be average overall but with strong areas of both achievement and improvement, as well as some weaknesses.
- 17 The Council has focused on its priorities, including education, adult care and partnerships. Continued service improvement into 2005/06 also reflects the success of improved performance management. Recent external assessments point to a number of areas of developing strength. These include its environment services, which in 2005 were assessed as 'good' with 'promising' prospects for improvement. For example, waste recycling remains high and road traffic accidents have reduced. It has sustained high satisfaction in cultural services and been commended for the rate of improvement in a number of other areas. These include special needs education, schools exclusions, benefits claims services, customer access, and support at home for people with disabilities.
- 18 Its leadership, strategies and plans for achieving further improvement into the future have been commended by external assessors, for example in its approach to education, services for children and young people, residential services and care for older people, and in other partnerships. Each of these is backed by clear commitment and is related to council and community priorities.
- 19 Some areas of improvement have been less marked however. Although there are more recent signs of success, comparisons with other councils up to March 2005 show that the Council achieved least improvement in those areas where its performance has been weakest. Areas that have not yet improved substantially, based on 2004/05 comparisons with other councils, include housing, transport, educational attainment, and the cleanliness of local streets. The Council recognises these challenges and has been focusing attention on these areas, with active performance review and reporting. This includes resources reallocated to achieve improvement in priority areas, such as internal and external consultancy support to help improve the housing service after our 2005 inspection assessment of its 'fair' performance and 'uncertain' prospects for improvement.

- 20 The Council's commitment and approach to investing in improvement is promising but not yet consolidated. Financial balances have improved and thus offer greater stability. Some of its systems for improvement continue to gather momentum, notably a council-wide medium-term planning process requiring all services to identify development and improvement opportunities. Councillors are actively engaged in this, and the process has already led to investment in service redesign that has helped achieve a significant rate of improvement in the revenues and benefits service since April 2005 and the start of radical challenge to its housing services. However, while strongly focused on priorities and user needs, and contributing to improved value for money, this approach is not yet making a consistent impact on service quality and efficiency across these activities and management responsibilities. Accelerating the rate of improvement remains a challenge to the Council.
- 21 The Council is strengthening its partnership approach, and has improved its focus on social inclusion. The Council is active and investing in its local strategic partnership, further aligning its corporate planning to the community strategy published in 2005, and backing this with the community focus of its LPSA2 agreements with government. Some good joint working with local health services has resulted in better care and support services. Increasing engagement with a new Milton Keynes Partnership will also help the Council address some of the many changes associated with rapid population and housing growth, and the need to regenerate its more deprived areas.
- 22 It has also been investing in internal partnerships to develop its future capacity, although some of this is in its early stages. A culture change programme is becoming more established, with a focus on internal leadership at all levels of management, as part of a drive to extend the Council's capacity. The Council's private sector partnership is delivering a range of customer benefits, including the opening of a new one stop shop and some systems reviews in other services. If the Council integrates these measures and cultural changes with systems such as performance management, cost improvement and financial planning they offer considerable potential. This is important, as despite a generally strong performance on its staffing performance indicators, the Council faces risks in securing the resources that will be needed to keep pace with the scale of its population growth and the complexity of other external changes.
- 23 A number of assessments point to areas where the Council needs to focus, including:
- the pace, depth and sustainability of improvement;
  - improving value for money;
  - integrating its range of strategy and planning frameworks, to ensure corporate and consistent improvement across services and with partners; and
  - continued capacity development and continued challenge.

## Other performance work

### Contract monitoring

- 24 Procurement is an important area for strategic consideration, especially in the light of the National Procurement Strategy (NPS) and central government expectations for the future of procurement. About 30 per cent of the Council's revenue budget is spent on the procurement of goods and services (about £90 million in 2003/04). The effective monitoring of contracts is therefore critical to the Council in delivering quality services and achieving continuous performance improvements. The Council's procurement and contract monitoring processes have been externalised to HBS.
- 25 We last reported our assessment of the Council's procurement processes and contracts management in 2004, and set out recommendations to improve the Council's approach. Our follow up review in May 2005 found that progress in implementing the action plan has been mixed.
- 26 Most progress has been made through the implementation of a centralised contracts database, which replaces the previous manual system. The database has improved intelligence on the range of contracts currently in place for goods and services across the Council. This process has also resulted in some benefit to the Council through administrative efficiencies. However, it is not yet comprehensive.
- 27 The Council has made progress in strengthening its approach to contract monitoring, albeit from a low base. It is only now beginning to gain a clear understanding of the range and type of contracts in place. It is therefore not yet in a position to exploit this intelligence to achieve systematic service improvements and efficiencies.
- 28 The Council's draft strategy represents a positive start, but needs some further development. Also, there is a need to strengthen the corporate functions and senior management support and capacity. We have been working with the Council to assess the position, identifying key areas for further attention that include:
- capacity and leadership to finalise and implement the strategy effectively;
  - determining procurement structures along with supporting roles and responsibilities; and
  - clear implementation plan with baseline/position statement, high level objectives and expected outcomes.

## **Review of People Management for Modern Local Government - follow-up**

- 29** We have reviewed progress made by the Council in response to our detailed 2003 report, focusing on the implementation of the HR strategy and procedures to support it.
- 30** The Council has made good progress in implementing its HR strategy and has prioritised and managed the production of new procedures. These have been produced for the management of attendance, capability, discipline, grievance, recruitment and selection, and bullying and harassment. The management of absence due to sickness; and performance in employing people from ethnic communities have improved. Also the Council has transferred its operational HR service to HBS and maintained performance during this challenging time.
- 31** Furthermore, there is a clear commitment by members and officers towards further improvement, and effective arrangements are in place to drive this.
- 32** Some procedures have either slipped or have not been prioritised, but a timetable is in place to address the remaining areas. Further improvement can be secured by:
- developing a wider range of local performance information to effectively monitor people management;
  - clarifying implementation, monitoring and review plans for the new procedures; and
  - clarifying the balance of responsibilities for people management procedures between managers and HR staff.
- 33** Since the review (undertaken February 2005) the Council has implemented the revised key policies (July 2005), supported by a programme of briefings for managers. These were designed to ensure managers understood the changes, and why, and how to apply the new policies and procedures effectively. Monitoring and review of effectiveness is scheduled for spring 2006. Also a suite of people management information is reported to the corporate leadership team quarterly and used to monitor and address issues such as sickness absence.

## **Second generation local public service agreement**

- 34** The Council's first Local Public Service Agreement (LPSA) ran for three years to April 2004, and delivered improved services in most of its stretch target areas even though it did not meet all targets. Two targets were met in full and four in part. The Council received a performance reward grant of £1.5 million (out of a possible total of £4.5 million had it met all targets in full).
- 35** The Council finalised its second generation LPSA with central government in October 2005. In this second generation the government aims to give authorities greater freedom to focus on what matters most in their area.

- 36 The overarching theme for Milton Keynes is social inclusion - a corporate and improvement priority that has also been identified as a key issue by the Local Strategic Partnership (LSP). The LSP was heavily involved in developing the priorities which focus on closing the gap between the most disadvantaged areas and the Milton Keynes average.
- 37 When we reviewed the Council's preparations in April 2005 we concluded that the Council was progressing well. However we found that many of the learning points we identified from our 2003 review were worthy of further attention. In particular, the Council with its partners needed to ensure that:
- targets were realistic and achievable within the stipulated timescale;
  - target managers, partners and the government clearly and unambiguously understand what each stretch target is, how it will be measured and ensure that baseline performance information is correct;
  - the Council's performance management methodology, PRINCE 2, is used to manage delivery of the stretch targets, and in particular be clear about roles, responsibilities and authorities;
  - they were able to make a prompt start to improvement action once (or even before) the Council and the Government sign the LPSA, including: project initiation documents; project plans; milestones; staff; and other resources; and
  - appoint a councillor champions for each target.

### **PPP contract - IT performance management**

- 38 The Council outsourced its ICT support and other in-house support services in January 2004. Its Private Public Partnership (PPP) contract with HBS represents an important financial investment for the Council and marks a significant change in support service delivery mechanisms.
- 39 As IT underpins the success of the PPPs delivery, we looked at arrangements in place to monitor delivery, and at selected aspects of the overall IT environment.
- 40 Based on the evidence presented, the Council's objectives for the first year were achieved in that IT service levels have been maintained. Also, the Council achieved its e-government targets for March 2005, and we understand that 100 per cent of transactions are now capable of being done electronically.
- 41 The contract includes an IT Schedule that sets out the investments that HBS will make during the term of the contract. The contract price for the IT Service is inclusive of the cost to HBS of investing in new technology and upgrades. This represents a cost saving in IT investment for the Council of £21 million.
- 42 One of the key benefits originally envisaged by the Council of the PPP contract was the provision by the partner of a comprehensive business process re-engineering (BPR) service. The business process re-engineering is being provided via Vanguard and has focused on particular service areas, for example within revenues and benefits and housing, and moving on to environment in 2006.

## Other Audit Commission inspections

### Landlord services

- 43** The Council provides fair landlord services with uncertain prospects for improvement, as judged by our inspection reported in February 2005.
- 44** The inspection highlighted a range of strengths in the service, but also identified a number of significant weaknesses. These are set out in the detailed report and are not repeated here.
- 45** In considering the Council's prospects of securing further improvement, the inspection identified a number of positive drivers, including those set out below. Further, we understand that the Housing Quality Network has promoted the good practice in the inspection report to its members:
- housing remains a top priority for the local population and the Council;
  - the Council's improvement plans are well informed and aim to address all of the most significant weaknesses;
  - over half of the relevant performance indicators show evidence of sustained improvement, albeit from a very low level;
  - many strategic improvements in the culture, staffing and management of the Council needed to be made and these have now taken place; and
  - the service is now financially stable and there is a robust performance management framework in place.
- 46** However some significant weaknesses and barriers were also identified. It is these areas that require particular attention:
- the repairs service was rated as 'fair' over three years ago and has shown little improvement from this position in the interim period;
  - most performance indicators are still some way from the best nationally and some, such as the speed of repairs, remain poor;
  - many of the actions within the 'path to excellence' have been completed in recent months and weeks - these changes need to be bedded in and sustained if they are to lead to a good or excellent service;
  - there is a tendency to confuse progress with achievement; and
  - risk management is underdeveloped.
- 47** Following our report the Council has been active in working to address the weaknesses identified. Key actions taken, or in progress, include the following.
- A new repairs provision contract will be operational from April 2006, with a single contractor for all aspects of repairs work, operating under a partnering term agreement designed to improve service delivery, customer satisfaction and value for money.
  - Completion of the HRA Business Plan for the next 30 years, illustrating that the Decent Homes Standard can be achieved for all council homes.

- Analysis and overhaul of all landlord service delivery and systems by consultants to improve service delivery, customer satisfaction and value for money.
- A detailed six-year capital investment programme for Council dwellings, incorporating decisions made following the stock options appraisal in the spring of 2005.

### **Environment services**

- 48 The Council provides a good environment service which has promising prospects for further improvement, as judged by our inspection reported in June 2005.
- 49 The Council has identified improving the environment as a top corporate priority and members, senior managers and staff are committed to improvement. Priorities are based on effective consultation with residents. Also service delivery priorities are clear and support community and corporate objectives. Performance management and staff development systems promote organisational and personal development.
- 50 The Council is also managing risks associated with the pace and scale of demographic change by engaging with government and local organisations and building internal capacity. Other positive features include:
- effective use of the principles of sustainable development;
  - additional government grant on the basis of good performance in planning;
  - positive approach to recycling, which is on course to meet the 30 per cent target;
  - strong resident satisfaction levels with recycling facilities and civic amenity sites;
  - success in reducing road accidents; and
  - a long-term view and strategy for the development of the retail, commercial and leisure centre of the city.
- 51 However, there are some areas to address.
- There is a demanding agenda for improvement linked to population growth and new legislation (recent history shows the Council has not been able to meet either its structure plan allocations or affordable homes numbers recommended in the housing needs study).
  - The implications of population growth have yet to be fully understood and accepted by residents.
  - There are risks associated with the Council's capacity to deliver the required scale and pace of change.

- Waste minimisation has been limited and overall levels of waste produced per person have grown.
  - Key decisions by the Office of the Deputy Prime Minister are yet to be made on the financial effects of failure to achieve landfill targets, linked to the wider growth agenda.
- 52** Since our report was issued, the Council has responded by approving an action plan in July 2005, which proposed that all the actions from the inspection should be addressed by March 2006.

## **Working with other inspectorates and regulators**

- 53** An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the Council's performance. These include:
- Ofsted;
  - Commission for Social Care Inspection (CSCI);
  - Benefits Fraud Inspectorate (BFI);
  - DfES; and
  - Local Government Office contact.
- 54** We share information and seek to provide 'joined up' regulation to the Council. During the last year the Council has received the following assessments from other inspectorates.

## Accounts and governance

### Audit of 2004/05 accounts

- 55 We issued an unqualified audit opinion on your accounts on 15 December 2005. However, we are not able to conclude the 2004/05 audit until matters raised by local government electors have been addressed.
- 56 The published accounts are an essential means by which the Council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. Members approved the Council's annual accounts on 29 July 2005.
- 57 We are required by professional standards to report to those charged with governance (in this case to the Business Management Group) certain matters before we give an opinion on the financial statements. The table below sets out the areas to be reported.

**Table 2 Reporting to the Business Management Group**

Matters reported to the Group in December 2005

Areas to be reported	Summary of matters reported to Group
Mis-statements	The accounts submitted for audit contained a number of material misstatements that management has adjusted.
Expected modifications to the audit report	As in previous years, the audit report will include non-standard wording drawing attention to the fundamental uncertainties in relation to the Council's claims for housing and council tax benefit subsidy (for 2000/01, 2001/02, 2002/03 and 2003/04). The Council has disclosed the circumstances relating to these fundamental uncertainties in the financial statements.
Material weaknesses in accounting and internal control systems	Significant items in school bank reconciliations had not been reflected accurately in the Council's financial statements. The overall value involved was £2.1 million.

Areas to be reported	Summary of matters reported to Group
Qualitative aspects of accounting practices and financial reporting	<p>There was no evidence from the Council that it maintains a memorandum account to demonstrate that the surplus from parking charges have been used on schemes allowed for by relevant legislation (repeat 2002/03 and 2003/04 issue). Further, this area is the grounds of a potential objection to the Council's 2004/05 accounts by a registered elector.</p> <p>We have highlighted a number of areas where there is non-compliance with proper accounting practice. The matters highlighted are as follows.</p> <ul style="list-style-type: none"> <li>• The write-down of intangible fixed assets (£1 million) was written off direct to revenue. It should go through the Asset Management Revenue Account.</li> <li>• The disclosure note re the financing of capital expenditure did not include all capital expenditure.</li> <li>• Capital commitments: seven out of eight tested were incorrect - the balance tested (£27 million) was overstated by £3.3 million - mainly relating to the Learning and Development Directorate.</li> <li>• Consideration of disclosures required where the Council acts as a lessor.</li> </ul> <p>The accounting for the Council's pooled budget for equipment services remain poor. Whilst this pooled budget does involve material values, the Council is now responsible in 2005/06 for the Learning Disability services pooled budget, which does contain material sums</p> <p>We identified significant mis-statements in the draft financial statements relating to debtors and capital creditors. The Council needs to improve its 'cut-off' procedures when producing the financial statements.</p>

Source: Audit Commission

## Financial standing

- 58 The Council's financial position at 31 March 2005 is sound, and represents a significant improvement on previous years.

### General fund spending and balances

- 59 As at 31 March 2005 the general fund balance was £9.3 million, which equates to 3.8 per cent of net operating expenditure. Although this balance contains some directly earmarked amounts (£2.6 million) the remaining balance of £6.6 million represents a significant step to the Council's medium-term aim of a £7 million general fund balance by March 2008.
- 60 At the end of November the Council was predicting an underspend against budget in 2005/06 of £2.9 million. All high risk budgets are discussed and reviewed in monthly meetings between relevant senior managers.
- 61 The Council is in the process of reviewing its spending/budget plans for 2006/07, both in the light of the financial pressures facing it and the need to ensure its spending meets strategic priorities.

### Housing Revenue Account

- 62 After bringing the Housing Revenue Account (HRA) into surplus at 31 March 2004, the Council has since made a significant in-year surplus of £3.4 million, resulting in an overall HRA balance of £6.0 million at 31 March. This equates to 15 per cent of gross expenditure, or £460 per dwelling (including those in shared ownership), which compares favourably with other local authorities.
- 63 This has been achieved through a combination of cost management, income maximisation and a reduced levy on the HRA from central government in 2003/04 and 2004/05. Following the conclusions of the housing stock condition survey in spring 2004, the Council is increasing its capital programme throughout the next six years. The result should be that balances are maintained at under £3 million.
- 64 As at the end of November the Council was projecting a deficit of £0.6 million for 2005/06. This was £3.5 million worse than budgeted, but reflected the planned appropriation of £2.9 million from the revenue surplus (£6.0 million) to be used as a contribution to capital expenditure.

### Pensions fund deficit

- 65 The Buckinghamshire County Council Pension Fund, along with all local government pension funds was revalued as at 31 March 2004. This has resulted in the funding level falling significantly to 66 per cent (from 81 per cent in 2001). The Pension Fund funding level is in the lower quartile of local government pension funds in England (the average is around 75 per cent). The Administrating Authority (Buckinghamshire County Council) has reviewed and revised its investment strategy, in order to improve the performance of the Fund as a whole and to balance risks and returns better.

- 66 Revised employer's contribution rates have therefore been set (effective from April 2006). These will increase by between 0.3 and 0.6 per cent of employees' pay in each of the next three financial years. This will mean an additional cost to the Council of up to £0.3 million per annum). As with most councils, the increases are designed to recover the deficiency over a 20-year period.

## Systems of internal financial control

### Public Private Partnership (PPP)

- 67 We reviewed the Council's arrangements to ensure that the contract delivers the defined and measurable benefits expected in April 2004.
- 68 The Council monitors overall performance through a performance management system, overseen by the Partnership Delivery Manager. Service level expectations are to be raised over time as a mechanism for securing continuous improvement. In addition, Internal Audit continues to report on performance and audit issues.
- 69 The application of the performance monitoring process, supplemented by the work of Internal Audit, has enabled the Council to confirm where expected service standards are being attained and areas where they are not. In services where performance has not met expectations, recovery plans had been produced by HBS. Internal audit has also identified significant issues re the payment of invoices.
- 70 However, some aspects of monitoring appeared ineffective. The monthly reports produced by HBS, sent to the Council's client officers, were viewed by some as largely an administrative reporting process. We identified a need to clarify the role of client officers in monitoring, how problems/'red lights' were to be resolved, and who was responsible for managing the required improvements.
- 71 We have continued to monitor progress since that time, and following heightened Council concerns regarding progress in certain areas, carried out a further review in October 2005. Our conclusions were consistent with the Council's views about the importance of addressing the service failures on the finance element of the PPP.
- 72 The Council set three key success areas (supported by 14 essential criteria) for HBS to meet by the end of December 2005. The areas were closure of 2004/05 accounts; robust continuation budgets on the ledger; and timely, accurate and effective budget monitoring. The Council's strategic finance team has worked closely with HBS to meet these criteria and communication with HBS has improved significantly.

73 Whilst the short-term objectives have been met, there is still significant work and investment needed to achieve the next phase and start to deliver the finance elements of the PPP to the standard required. A detailed improvement plan is being drawn up for financial services with the aim of making the service fit for purpose; maximising the use of SAP; improving the use of resources; and achieving continuous service improvement. It is expected to be finalised in February and is expected to concentrate on the following areas:

- achieving timely and accurate close down of the accounts;
- delivering robust and effective financial management including budget building and monitoring; and
- ensuring staff and structures are fit for purpose.

### **Overview of governance arrangements for partnerships**

74 The Council has a long tradition of partnership working building on the need to work together to deliver economic and effective services to a rapidly growing community. It is actively engaged in a diverse and complex set of both strategic and operational partnership arrangements involving health, criminal justice and local government agencies as well as community, voluntary and private sector bodies.

75 Our work has focused on the governance and probity aspects of operational partnerships, many of which operate at a 'lower level' within the organisation and can often go unnoticed. We have also surveyed the views of stakeholders to help identify strengths and weaknesses in the Council's arrangements. The survey was sent to 104 representatives of both strategic and operational partnerships drawn from the Council, other local authorities and the private and voluntary sectors and had a 33 per cent response rate.

76 Both staff and external stakeholders have commented positively about the Council's commitment to partnership working.

77 However, the Council does not have complete information on, and is therefore not aware of, the number of operational partnerships it is involved in, the financial and 'in kind' contributions it is making to those partnerships, or the value it achieves from that contribution. This presents a barrier to the Council in reviewing its involvement in operational partnerships, monitoring outcomes and assessing whether they represent value for money. It may also have an impact on the ability to pool and share information, good practice and learning across the Council.

78 Our survey results indicate that action is needed to strengthen partnership working arrangements in a number of areas as summarised below:

- being clear about how partnerships contribute to corporate objectives;
- assessing whether partnership strategies reflect council needs; maintaining systems for declaring conflicts of interest;

- developing a coherent approach to partnerships, clearly linking council plans and partnership plans, with a clear and transparent decision-making process which also take full account of partnership strategies; and
- setting clear objectives and targets within an agreed framework, supported by systems to deal with for example slippage against plans, disagreements and exit strategies and dealing with financial affairs after partnerships have ended.

### **Follow-up audit: review of overview and scrutiny arrangements**

- 79** We reviewed the Council's overview and scrutiny arrangements in 2003. At that time a skills audit had been commissioned to inform decisions around councillor training and development. We also highlighted some areas for improvement including improving co-ordination; reviewing resource needs; better agenda and work planning; and focusing better on Council performance issues.
- 80** The Council has since carried out a major review of overview and scrutiny and implemented a new structure (operating from June 2004) - to separate policy development work from the executive scrutiny role.
- 81** The Council has worked well since our last review to improve overview and scrutiny arrangements, to strengthen their contribution to overall strategic capacity and provide firm foundations for further improvement. New structures and processes for scrutiny, comprehensive training and development for councillors, and additional resources have all facilitated this improvement.
- 82** However, we identified some barriers to effective working which are preventing scrutiny from maximising its potential.
- The planning, co-ordination and profile of overview and scrutiny remains a weakness for the Council. For example, there is no clear link between performance scrutiny and policy review. This means performance issues identified by the Performance Review and Audit Panel do not systematically feed into the work of the policy review committees to inform post-implementation policy review.
  - Structural and support issues are preventing scrutiny from working effectively. The number of committees and the frequency of meetings limit the time councillors have to spend on detailed review work. The remit of the Performance Review and Audit Panel is too wide, and the panel has difficulties in dealing with its agenda in one meeting (the Council is in the process of reviewing this aspect of its Committee structure). Also, the demands of the new structure are diverting scrutiny resources from support work that could have more impact.
- 83** The Council has invested considerable time and resources in developing structures and processes to facilitate overview and scrutiny, and to equip councillors to lead and deliver the scrutiny agenda. We are also aware that the Council has robust arrangements in place to review its political arrangements and that it is already taking steps to address issues we have highlighted.

- 84 The next major challenge for the Council is to systematically monitor and evaluate the impact of scrutiny work. The Council has already introduced local performance indicators that measure the number of recommendations made by the committees that are accepted by the Executive and the called-in decisions that they amend. The Council should build on these arrangements by monitoring the implementation of its recommendations, and by developing ways to assess the outcomes that scrutiny achieves for residents and service users.

### **Supporting people**

- 85 The Council requested assistance to review the funding and costs being incurred by one organisation which is in receipt of significant sums from the Council through this initiative. Work is still taking place on the details of these arrangements.
- 86 It is commendable that the Council's governance arrangements identified the issues and the need to tap into different skills and knowledge to review what is a complex situation to complete its service review. However, as part of our input we identified some other areas where the Council needs to improve its arrangements for administering the supporting people grant it receives, including:
- the Commissioning Body agreeing on a local approach to eligibility and value for money as both should be informing all service reviews; and
  - the eligibility and value for money criteria should be developed in discussion with all relevant local stakeholders and should assert the principle that it is possible to produce a costed model of a basic supporting people service for each client group, enabling more effective benchmarking both internally and externally.

## **Standards of financial conduct and the prevention and detection of fraud and corruption**

- 87 We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption, but we are in the process of reviewing the Council's arrangements for achieving high ethical standards.
- 88 We are working with the Council to assess its arrangements for ensuring and promoting a positive ethical environment through two pieces of work which are in progress and both use surveys as an essential element of the assessment. We expect to issue a report on our findings by April 2006.

## Legality of transactions

- 89 We have not identified any significant weaknesses in the framework established by the Council for ensuring the legality of its significant financial transactions.
- 90 We will not conclude the 2004/05 audit until correspondence from several local government electors, who wish to 'object' to the Council's financial statements, have been addressed. There are two distinct areas being challenged:
- whether all of the surplus from the Special Parking Area has been utilised for schemes permitted by section 55 of the Road Traffic Act 1984 (as amended); and
  - the Council's decision to end the section 136 agreement with parish councils and the subsequent expenditure by the Council.

## Use of resources judgements

- 91 The use of resources assessment is a new assessment which focuses on financial management but links to the strategic management of the authority. It looks at how the financial management is integrated with strategy and corporate management, supports council priorities and delivers value for money. It will be carried out annually, as part of each council's external audit. For single tier and county councils, the use of resources assessment forms part of the CPA framework.
- 92 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in five areas.

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**Table 3**

Element	Assessment
Financial reporting	1 out of 4
Financial management	2 out of 4
Financial standing	3 out of 4
Internal control	2 out of 4
Value for money	2 out of 4
<b>Overall</b>	2 out of 4

*(Note: 1=lowest, 4=highest)*

- 93 In reaching these judgements we have drawn on the above work and supplemented this with a review against specified key lines of enquiry as summarised below.

## Financial reporting

- 94 The Council did not meet minimum standards in relation to the quality of its draft 2004/05 annual statements approved and submitted for audit. Whilst the accounts have been produced on time with supporting working papers, adjustments were required to correct a number of non-trifling errors that were material in total. Supporting working papers need to be improved.

## Financial management

- 95 The medium-term financial strategy (MTFS) is updated annually and looks forwards three years, with the aim of ensuring the Council's priorities are met and affordable. The service planning process is evolving and is more established. It is more integrated with financial planning, with further improvements likely for the 2006/07 process. However, trails to evidence budget building for 2004/05 were not always available; linkages across various plans to the financial strategy were not explicit.
- 96 The growth agenda means the Council has a comparatively large capital programme for several years. The Council is therefore very aware of the importance of ensuring revenue implications are effectively built into future plans. The Council also has an established mechanism to identify the budgets considered to have the highest risk. These are then specifically monitored on a monthly basis and reported to Cabinet.
- 97 The Council has systems in place to enable effective budgetary control to take place. Reporting to members is broad and comprehensive. Historically, however, the Council has been poor at using the systems effectively, resulting in some examples of over spends not coming to light as timely as they should. Much of this came from budget holders either not understanding or not wanting to take the responsibility of managing their budgets effectively.
- 98 The situation has improved in recent years and systems are being improved further (with more enhancements expected from the PPP and new financial system). However, there are still concerns (and examples) which highlight that the Council has further to go on this before it can be said to be embedded and working effectively.
- 99 The Council manages its asset base through its asset management plan, rolling three-year capital programme and planned maintenance programme. The capital strategy was approved in 2002/03 and is being updated. It is supported by asset management plans (AMPs) for HRA and education. The corporate AMP is being revised as part of 'Access MK'. Consequently the annual maintenance programme is clear generally, but there are areas of concern, for example the housing inspection was critical of repairs and maintenance. Also the Council does not make all its investment and disposal decisions based on thorough option appraisal and whole life costing.

## Financial standing

- 100 The financial position of the Council is now stronger with a positive outturn for 2004/05.
- 101 Over the past two to three years the Council has improved significantly in this area. Recent actions and outcomes include: wider understanding of the need for reasonable (based on risk assessments) balances; improvements to members' support; and enforcing reserves and spending policies has meant that the Council reached its medium-term target for general balances as at March 2005.
- 102 Also the HRA has been returned to a reasonable surplus (£500/property) having been in overall deficit for three years to 31 March 2003 (although 2002/03 did show a surplus).

## Internal control

- 103 The Council has all of the basic building blocks in place for effective risk management. It is now working to ensure that risk management is embedded effectively across the organisation. Further work on strategic risks is also in progress.
- 104 The Council has put appropriate arrangements in place to maintain a sound system of internal control. Annual reviews are effective and open (reported to Committee in open session) and reflected in the Statement of Internal Control (SIC). IA is effective and reporting mechanisms to identify weaknesses are also appropriate.
- 105 Previous year's action plans to address issues/weaknesses were not always considered robust or action taken not always seen as being effective. Also it was not clear whether the assurance framework had been mapped to strategic objectives, risks, controls and assurances.
- 106 Other issues for future consideration include whether agreements are in place for all significant partnerships; reviewing procedure notes/manuals for business critical systems on an annual basis.
- 107 The Council has Codes of conduct in place and arrangements for monitoring compliance with them. This is supported by appropriate arrangements to investigate breaches etc and enabling whistleblowers to come forward. However, these arrangements are not always followed in all departments across.

## Value for money

- 108 The Council has a mixed performance in achieving value for money, with strong, average and weaker areas of performance. Its expenditure is reasonably commensurate with policy decisions, which it is balancing with a clear focus on the exceptional levels of growth projected for the city and on measures to improve service performance

- 109 The Council is active in seeking to improve value for money, and has set up a number of mechanisms to manage this and support its commitment to it. It has a strong corporate focus on future growth, and improving value for money (vfm) to achieve better outcomes. This focus has already led to vfm improvements, but the Council is aware it has more to deliver across its range of services.

## Other work

### Additional voluntary work

- 110 We have carried out additional work in two areas, and separate reports have been issued:
- community alarm and sheltered housing service; and
  - housing conditions in Houses in Multiple Occupation (HMO).

### Grant claims

- 111 Over recent years the number of claims requiring audit certification has grown and audit fees have risen in line with this growth. In accordance with Strategic Regulation, the Audit Commission has adopted a more risk-based approach to the certification of grant claims. With effect from 2003/04 the smaller claims have not been subject to audit or have received a lighter touch. The approach to larger claims has been determined by risk and the adequacy of the Council's control environment.
- 112 The Council's arrangements for managing and quality assuring grant claims submitted for audit has improved in recent years. Consequently, the planned fee for 2004/05 claims was £129,800 which is a reduction of 17 per cent over the 2003/04 plan, and a reduction of 24 per cent over the 2002/03 plan (£170,000).

### National Fraud Initiative

- 113 In 2004/05, the local authority took part in the Audit Commission's National Fraud Initiative. The NFI, which is undertaken every two years, aims to help identify and reduce fraud by bringing together data from NHS bodies, local authorities and government departments and other agencies, to detect a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud as well as, new for 2004/05, right to buy scheme fraud and providing new contact details for former tenants with arrears in excess of £1,000. The Council is in the process of reviewing the results and carrying out further work as deemed appropriate.

## Looking forwards

### Future audit and inspection work

- 114 We have an agreed plan for 2005/06 and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2005/06 accounts, will be reported in next year's Annual Letter. Our planned work, together with that of other inspectorates, is included on both the Audit Commission and LSIF (Local Services Inspectorates Forum) websites.
- 115 We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the Council. We will continue with this approach when planning our programme of work for 2006/07. We will seek to reconsider, with you, your improvement priorities in the light of the latest CPA assessment and your own analysis, and develop an agreed programme by 31 March 2006. We will continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation.

### Revision to the Code of Audit Practice

- 116 The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
  - the Code of Audit Practice (the Code).
- 117 The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan which has been agreed with the Chief Executive in April 2005. The key changes include:
- the requirement to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources; and
  - a clearer focus on overall financial and performance management arrangements.

## Closing remarks

- 118 This letter has been discussed and agreed with the Chief Executive. A copy of the letter will be presented at the Performance Review and Audit Panel on 8 March 2006.
- 119 The Council has taken a positive and constructive approach to our audit and inspection I would like to take this opportunity to express my appreciation for the Council's assistance and co-operation.

## Availability of this letter

- 120 This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk) and also on the Council's website.

A P Burns  
District Auditor and Relationship Manager  
January 2006

# Appendix 1 – Background to this letter

## The purpose of this letter

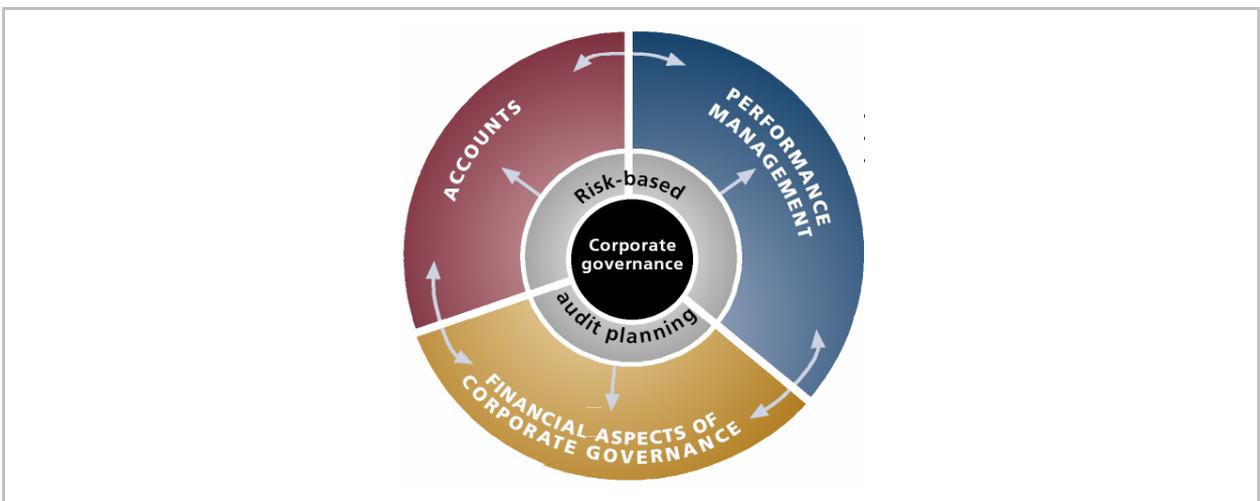
- 1 This is our Audit and Inspection ‘Annual Letter’ for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council’s Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections of the Council.
- 2 We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 2 for information.
- 3 The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.
- 4 Appendix 3 provides information about the fee charged for our audit and inspections.

## Audit objectives

- 5 Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.
- 6 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Figure 1.

**Figure 1 Code of Audit Practice**

Code of practice responsibilities



- 7 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as shown below.

### **Accounts**

- Opinion.

### **Financial aspects of corporate governance**

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct and the prevention and detection of fraud and corruption.
- Legality of transactions.

### **Performance management**

- Use of resources.
- Performance information.
- Best value performance plan.

## Appendix 2 – Audit reports issued

**Table 4**

<b>Report title</b>	<b>Date issued</b>
Overview of Community Alarms and Sheltered Housing	December 2004
Housing Inspection - Landlord Services	February 2005
Review of People Management for Modern Local Government - Follow-up	March 2005
Audit Plan	April 2005
Second Generation Local Public Service Agreement	May 2005
Environment Services Inspection	June 2005
Overview of Governance Arrangements for Partnerships	June 2005
Review of Overview and Scrutiny Arrangements - Follow-up	June 2005
Core Process Review	July 2005
Contract Monitoring	July 2005 (draft)
Review of Supporting People Arrangements	July 2005 (draft)
Houses in Multiple Occupation	October 2005
Review of Financial Aspects of Corporate Governance	November 2005
Report on the 2004/05 Financial Statements to Those Charged with Governance (SAS 610)	December 2005

## Appendix 3 – Audit fee

**Table 5 Audit fee update**

<b>Audit area</b>	<b>Plan 2004/05 (£)</b>	<b>Actual 2004/05 (£)</b>
Accounts	116,150	120,000
Financial aspects of corporate governance	113,620	109,800
Performance	110,250	110,220
<b>Total Code of Audit Practice fee</b>	<b>340,020</b>	<b>340,020</b>
Additional voluntary work (under section 35) (community homes work only; HMOs is 2005/06)	7,500	7,500
<b>Total</b>	<b>347,520</b>	<b>347,520</b>

*NB the above does not include the cost of dealing with the potential objections received relating to the 2004/05 financial statements.*

### Inspection fee update

- 1 The full year inspection fee is £76,480. The work reported in this Audit and Inspection Letter has been funded by an element of the fee covering 2004/05 and by an element of the fee covering 2005/06. In both years the actual fee will be in line with that planned.